



David B. Wescoe
Administrator/CEO

RECEIVED

NOV 30 2007

COUNCILMEMBER
DONNA FRYE

November 29, 2007

Councilmember Donna Frye
The City of San Diego
202 C Street, M.S.10A
San Diego, CA 92101

Dear Councilmember Frye:

Subject: Your October 2, 2007 Memorandum concerning Request for February 28, 2007 Estimates

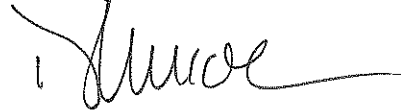
Your October 2 memorandum requested: (1) a copy of the document provided to the City (Plan Sponsor) with the Excess Benefit Estimates, (2) copies of the documents provided to and used by the Board to determine the Excess Benefit amount, and (3) the amount determined by the Board to be a necessary and reasonable expense of administering the Preservation of Benefit (POB) Plan and Trust.

- (1) Bob Wilson, SDCERS' then CFO, prepared a report, dated February 7, 2007, to the SDCERS Board requesting that the City fund the POB plan for \$639,962 for calendar year 2007. Bob Wilson's report is attached. On February 15 and February 22, 2007, SDCERS received letters from the IRS concerning the 415(b) testing methodology and requiring that the testing be done on a fiscal year rather than a calendar year. (You were provided copies of these letters from the IRS on September 20, 2007.) The issues raised in the IRS letters effectively delayed the ability to fund the City's POB Plan until the IRS approves SDCERS' 415(b) testing methodology. Therefore, no formal estimate of POB Plan cost estimates was provided to the City by February 28, 2007.
- (2) Bob Wilson's February 7 report was an agenda item at the SDCERS Board meeting on February 16. The Board approved the \$639,942 funding request at the February 16 meeting. As noted above, though, this estimate is no longer accurate due to the discussions with the IRS that took place after the February 16 Board meeting.

- (3) SDCERS' FY 2008 administrative costs for outside check processing, actuarial assistance and SDCERS staff support are estimated to be approximately \$20,000. This estimate will be reconciled to the actual costs at the end of FY 2008, at which time an adjusting charge or credit will be applied.

Please let me know if you have any further questions.

Sincerely,

A handwritten signature in black ink, appearing to read "D. Wescoe", with a long horizontal flourish extending to the right.

David B. Wescoe

Encl: February 7, 2007 memo to SDCERS Board re: Fiscal Year 2008 POB Funding

cc: Honorable Mayor and Members of the City Council
SDCERS Board of Administration
Andrea Tevlin
Stanley Keller

SAN DIEGO CITY EMPLOYEES RETIREMENT SYSTEM
STAFF REPORT
FINANCE AND ADMINISTRATION DIVISION

DATE: February 7, 2007

TO: Board of Administration

FROM: Bob Wilson, Chief Financial Officer 

SUBJECT: Fiscal Year 2008 Preservation of Benefit Plan Funding

Recommendation

Request the City of San Diego to fund its Preservation of Benefits Plan in the amount of \$639,962 for its projected payments during calendar year 2007 for benefits due to its plan retirees that exceed IRC Code Section 415(b) limits.

Background

In August 2006, Ice Miller, tax counsel for SDCERS, submitted a report to the Internal Revenue Service under the Voluntary Compliance Program (VCP) covering Internal Revenue Code Section 415(b) compliance. This section establishes maximum allowable annual benefits that can be paid from a qualified 401(a) trust.

During the fall of 2006, SDCERS staff worked with Cheiron and Linea Solutions and developed comprehensive tests of the retired SDCERS members to identify those members who will receive plan benefits that exceed the IRS 415(b) limit. Allowable plan benefits that exceed the limits must be paid from IRC 415(m) plan. San Diego Municipal Code Chapter 2, Article 4, Division 16 establishes authority for the 415(m) plan, known as the "Preservation of Benefits" (POB) Plan.

Under the VCP filing with the IRS, SDCERS is establishing the administrative practices to pay benefits from the POB plans for our plan sponsors. Benefits will typically be payable in the second half of each calendar year for the amount of the excess benefits due to retirees.

As of February 7, 2007, a total of 18 retirees from the City of San Diego are projected to receive excess benefits totaling \$439,962 payable through December 31, 2007. New active members who file for retirement and begin receiving benefit payments during 2007 could also exceed their limits. (New retirees commencing January 1, 2007 are tested immediately upon filing for retirement benefits.) Staff believes it is prudent to request the City of San Diego to plan for funding an additional \$200,000, for a total of \$639,962 in POB funding in its fiscal year 2008 budget for members who may retire during 2007.

The San Diego Unified Port District and the San Diego Regional Airport Authority have no tested plan failures.

Staff has met with the chief fiscal staff of each of the three plan sponsors to inform them on the POB plans and funding arrangements for their fiscal year 2008 budget planning. The POB plan anticipates that plan sponsors will fund their annual requirement in advance of the projected time in which payments will begin.